Statement of the U.S. Chamber of Commerce

On: Testimony Concerning ASEAN: Regional Trends in Economic Integration, Export Competiveness, and Inbound Investment for Selected Industries

To: United States International Trade Commission

By: U.S. Chamber of Commerce

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The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility

The U.S. Chamber of Commerce is the world's largest business federation, representing the interest of more than three million businesses and organizations of every size, sector, and region.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 70 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross-section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business -- manufacturing, retailing, services, construction, wholesaling, and finance – is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 112 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross-section of Chamber members serving on committees, subcommittees, and task forces. More than 1,000 business people participate in this process.

OVERVIEW

On behalf of the U.S. Chamber of Commerce, I would like to thank the USITC for organizing this important hearing and launching research on ASEAN[1] economic integration.

With 582 million consumers, ASEAN is the third largest market in Asia after China and India and a trading block of great importance to U.S. companies. Few regions offer as much opportunity. The 10-country ASEAN grouping nearly doubled its GDP to $1.5 trillion in the five years to 2008, which gives it a combined economy bigger than those of South Korea and India and makes it the world's 10th largest economy. Southeast Asia's trade more than doubled to $1.7 trillion between 2003 and 2008, making it the world's fifth largest trading power. And foreign direct investment (FDI) reached $60 billion in 2008, higher on a per capita basis than that into China.[2]

American companies are buyers and sellers in Southeast Asia, as well as investors and recipients of investment from the region. Increased regional economic integration would benefit not only U.S. companies, but it would boost economic growth, increase trade, and create jobs in Southeast Asia. It would stimulate new consumer demands that American firms would seek to meet, provide new investment opportunities for U.S. companies, and increase ties between this dynamic region and the United States.

Through the ASEAN Free Trade Agreement (AFTA), the grouping is progressively moving towards an integrated regional market principally by eliminating tariffs on industrial and agricultural products. January 1, 2010, marked an important milestone in ASEAN, when six of its largest economies (Brunei, Indonesia, Malaysia, the Philippines, Thailand, and Singapore) eliminated import tariffs on all industrial goods and most agricultural products, despite the economic difficulties and domestic political pressure in some countries resulting from the global financial crisis. This sent a strong signal that member countries remain committed to ASEAN economic integration.

For some industries (such as autos), the MFN or non-FTA tariff schemes are relatively high in most markets. These rates, which apply to goods imported from the ASEAN-6 countries that do meet the rules of origin or goods imported from non-

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[1] Association of Southeast Asian Nations, including Burma, Brunei, Cambodia, Indonesia, Malaysia, Laos, the Philippines, Singapore, Thailand, and Vietnam.

[2] These figures were cited by Surin Pitsuwan, secretary-general of ASEAN, during the launch of *Realizing the ASEAN Economic Community: A Comprehensive Assessment* (edited by Michael G. Plummer and Chia Siow Yue) in Singapore on November, November 14, 2009.

FTA partner countries like the United States, can range from 20-80 percent among the ASEAN-6 nations. As a result, fully implementing AFTA is critical to the entry and long-term growth of business in the region and has provided the following benefits to American businesses:

- It provides scale in production to allow competitive cost efficiencies, without having to establish a manufacturing presence in each market.
- It provides viability to the co-location of a well developed supporting parts industry which is equally important in attaining competitiveness in auto manufacturing.
- It serves as a production base for broader exports to global markets beyond ASEAN.

Implementing the ASEAN economic community blueprint, which calls for transforming the grouping into a single market and production base by 2015, will increase the 10 countries' overall GDP by $69 billion or 5.3 percent, according to a recent study commissioned by the ASEAN Secretariat and funded by a grant from the State Department and USAID.[3] The study concluded that the economic gains could be twice as large if economic integration was accompanied by reforms in competition policy, infrastructure development, intellectual property rights protection, and other regulatory reforms.

If the ASEAN economic blueprint is implemented by 2015, the grouping's exports are expected to increase 42.6 percent.[4] Exports of food products would grow most (113.1 percent). Of the other sectors included in the USITC's study, vehicles (85.7 percent), textiles (56.3 percent), and electrical equipment (45.7 percent) are also expected to do very well.[5]

With a more open flow of goods, services, and capital, Southeast Asia will attract U.S. investors, while local consumers and companies will have access to a wider range of competitive services, products, and financing.

Our member companies applaud the progress that ASEAN has achieved in implementing plans to integrate its 10 economies. However, they tell us that regional economic integration is still at early stage. Much more work is required to remove barriers to trade in goods along with free flow of capital and labor. Specifically,

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[3] Michael G. Plummer and Chia Siow Yẹu (editors), *Realizing the ASEAN Economic Community*, (Singapore: Institute for Southeast Asian Studies, 2009), 35.
[4] Plummer and Chia, 36.
[5] Plummer and Chia, 39.

ASEAN needs to address cumbersome rules of origin, customs procedures need to be simplified, and non-tariff barriers (NTBs) need to be eliminated, if the countries hope to achieve a single market and unified production base.

With the economic rise of China and India, Southeast Asia risks being left behind unless it speeds up economic integration. The self-imposed deadline is only five years away. Considering the technical and political challenges some countries will face in implementing the needed reforms, that's not much time to get a lot done.

INVESTMENT

FDI into ASEAN reached $52.4 billion in 2006, up from $30.2 billion 10 years earlier,[6] propelling it into the ranks of the world's top 10 investment targets. FDI from U.S. companies grew to $6.3 billion in 2007, up from $5.0 billion a decade earlier (before falling to $3.0 billion in 2008 during the global financial crisis).[7] Some of this growth in investment was prompted by foreign companies looking to countries like Vietnam as an alternative manufacturing base as costs in China rise.

U.S. FDI in ASEAN is good for Americans too. An open investment regime that allows U.S. multinationals to invest abroad doesn't create a zero sum game in which a job created abroad is a job eliminated at home. U.S. companies that invest abroad create 2.3 jobs in the U.S. for every one they create overseas.[8] U.S. companies earned more than $5 trillion in revenue through their foreign subsidiaries last year. In fact, more than half of all revenue earned by the Fortune 200 came from their foreign affiliates in recent years.[9]

In 2005, FDI in Singapore reached $20 billion, nearly double the level in 1995. In Indonesia, FDI stood at $6.1 billion in 2005, up from $4.3 billion 10 years earlier. FDI into Malaysia totaled $4 billion in 2005, down from $5.8 billion in 1995 before the financial crisis. In Thailand, FDI hit $4 billion in 2005, double the figure a decade earlier. FDI in Vietnam reached $2 billion in 2005, up slightly from $1.8 billion 10 years earlier. About 46% of the cumulative FDI in ASEAN in the decade to 2005 came from EU countries; 10.9% came from the United States.[10]

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[6] Plummer and Chia, 17.
[7] ASEAN Statistical Yearbook 2006, Chapter 17; Foreigh Direct Investment Statistics, The Official Website of the Association of Southeast Asian Nations (www.aseansec.org/18144.htm)..
[8] Matthew J. Slaughter quoted in "U.S. Multinational Companies Strengthen the Domestic Economy" in a press release by the United States Council for International Business, March 16, 2009 (www.uscib.org/index.asp?documentID=3882).
[9] U.S. Department of Commerce, Bureau of Economic Analysis.
[10] UNCTAD , FDI statistics online.

Our members say these investment figures could increase significantly if Southeast Asia were one bloc rather than 10 disparate economies. They say that an integrated ASEAN would provide the efficiencies of scale needed before they are willing to commit significant amounts of capital. The recent study commissioned by the ASEAN Secretariat estimated that FDI into ASEAN countries would grow 28-63 percent (up $117-264 billion over 2006 levels), if the grouping fully implements its ASEAN economic community goals by 2015.[11]

But investment into the region is still held back by differences between countries in regulations and business environments as well as the political and business culture, infrastructure development, and institutional capabilities. For example, Singapore is ranked the easiest place in the world to do business, according to the World Bank's "Doing Business Survey 2010," but Indonesia ranks 129th out of 181 nations. Singapore, Malaysia, and Thailand have excellent ports and transportation networks, while Burma, Cambodia, and Laos have relatively limited infrastructure. Politically, ASEAN includes a wide spectrum of government types ranging from Indonesia, the world's third largest democracy, to the authoritarian regime in Burma.

FINDINGS FROM COMPANIES

The Chamber is still in the process of gathering information from our companies on the specific questions the USITC asked in its hearing announcement about the trends in economic integration, export competitiveness, and inbound investment in the six key sectors: electronics, automotives, agro-based products, healthcare, textiles and apparel, and wood-based products. We hope we will be able to provide more detailed information by the March 10 deadline for written submissions.

With ASEAN tariff liberalization largely in place, the focus of regional governments should now shift to the progressive elimination of NTBs. The elimination of NTBs should be considered as important as tariff elimination. NTBs can act as greater barriers to trade than tariffs, slowing the creation of a single market, impeding fair and equitable trade, and increasing investment requirements and business complexities.

One of the top concerns of U.S. companies doing business in ASEAN is the lack of transparency in government regulation and rules. U.S. companies say that

[11] Plummer and Chia, 105.

unique technical standards and differing technical regulations and processes increase investment costs and difficulties in complying with administrative regulations. Companies often face requirements not only at the country level, but also at the regional level, in figuring out what requirements and regulations they must comply with and in anticipating future changes to these requirements and regulations. When requirements are developed behind closed doors, it is easy for policymakers to avoid following international best practices, adopt requirements that protect domestic industry and put U.S. companies at a competitive disadvantage, and to be influenced by corrupt practices.

One recommendation from our companies is that ASEAN publish its regulations and standards online for easier access. One way to do this would be to use the StandardsPortal (www.standardsportal.org), an online resource developed by the American National Standards Institute (ANSI), to provide companies with market access information for key markets in the region. StandardsPortal currently includes information on China, India, Korea, and the United States.

The Chamber would recommend that the U.S. government consider funding the expansion of StandardsPortal to include standards and regulatory information for the ASEAN region. This would help address many of the transparency concerns of U.S. companies and put U.S. companies on a more level playing field in ASEAN.

ELECTRONICS

ASEAN's exports over the past two decades have evolved from mainly natural resource goods toward electronics and other sophisticated manufactured products. The region's export of thermionic valves, including television picture tubes, reached $759 billion in 2006, up from $12 billion in 1990.[12]

For the electronics sector, the signing of the ASEAN Trade in Goods Agreement (ATIGA) and the ASEAN Comprehensive Agreement on Investment (ACIA) in February 2009 is seen as a positive step towards greater liberalization and facilitation of trade and investment in the region. The ultimate benefit to electronics companies, however, will depend on ASEAN governments fully implementing these two agreements according to their original intent.

U.S. electronics companies hope the changes proposed by the ASEAN Charter in late 2008 will allow greater private sector engagement with economic officials in the region. They hope a mechanism will be established to provide the private sector with

[12] Plummer and Chia, 4-5.

greater opportunities to contribute to ASEAN economic integration. Overall, U.S. electronics companies are encouraged to see that individual governments are engaging the private sector to ensure that the regulatory environment remains sensitive to the needs of businesses in the region.

However, for economic integration to truly succeed there needs to be greater harmonization of rules and standards throughout ASEAN. U.S. companies highlight two initiatives:

The first is the ASEAN Single Window which has seen only limited progress in recent years both at the national and ASEAN level. Full implementation of the single window is important in the electronics industry because supply chain efficiency gains are diluted by non-tariff barriers. One potential issue that may arise in the future is the introduction of "export control" type legislation in the region. The harmonization of such controls in ASEAN will create an environment where businesses are able to easily comply without disrupting legitimate business flows.

The second is the ASEAN Harmonized Tariff Nomenclature (AHTN), an initiative that has yet to be fully realized. There are still some inconsistencies at the national level and some countries still have two nomenclatures -- one for intra-ASEAN trade and another for general trade. A harmonized and consistent approach to tariff classification will reduce the cost of businesses for companies that have region-wide supply chains.

Other initiatives that would benefit electronics companies include:

- Foreign participation in national standard setting and rulemaking activities.
- Broader mutual recognition agreements for testing and certification (some countries discriminate through local certification/testing of imported IT products, which often delays the entry of new products).
- Full participation in the WTO zero tariff Information Technology Agreement and expansion of the agreement to include IT products such as multi-chip components not listed in the original agreement.
- Accession to the WTO Government Procurement Agreement with decent government entity coverage for those countries that have not signed it or have done so with too many exceptions.
- Strong technology neutrality requirements with specific application examples such as spectrum allocation rules.

Individual ASEAN countries have taken steps to improve facilitation in trade and investment. But for these efforts to be truly effective, more effort is required to ensure greater integration at the ASEAN level. One step that would have a positive effect on economic integration in ASEAN would be improvement of IT infrastructure, including both training and hardware. Some U.S. companies already have in place sophisticated internal IT solutions both at regional and worldwide levels. A comprehensive, harmonized ASEAN-wide IT-based platform in areas such as customs and licensing procedures will allow for greater efficiency and transparency in company dealings with ASEAN governments.

AUTOMOTIVES

Thailand has become a regional hub for many of the world's automakers, including the Auto Alliance (Ford and Mazda), General Motors, Honda, Isuzu, Mitsubishi, and Toyota. By 2002, Thailand had some 1,800 locally-based suppliers providing everything from engines to braking systems and transmissions and meeting nearly 90 percent of the parts needed by the manufacturers.[13]

Still, auto makers are hampered in the region by domestic policies that protect locally made products. These policies include domestic content related benefits and tax structures that favor locally made products. An example of this is Malaysia's National Automotive Policy which continues to protect its national car market through a combination of measures. The Chamber believes the administration should make it a priority to advocate for nondiscrimination in the region's policies with regard to the automotive sector.

AGRO-BASED PRODUCTS

Food products in ASEAN are highly regulated, with different standards and procedures between countries prompting confusion and unnecessary barriers to trade. Trade facilitation and harmonization of standards would boost trade in food products with and between ASEAN countries. Varying sanitary and phytosanitary standards between countries also create trade impediments with the region.

ASEAN lacks a region-wide standard on meat and poultry, which creates several issues. Despite the World Organization for Animal Health's (OIE) standard on cooked poultry, most ASEAN countries do not allow intra-ASEAN trade in cooked poultry. This, for example, hampers the Thai poultry business of U.S. companies, which can export to Japan, Korea, Hong Kong, Canada, and the EU, but

[13] Plummer and Chia, 91.

not to the Philippines, Malaysia, and Indonesia.

U.S. beef exports to the region are affected by the fact that ASEAN countries have different regulations on the age of beef and bone-in or no bone across the region. Because Singapore has a zero tolerance on its no bone-on policy, U.S. companies do not ship to the market due to the fact that they cannot guarantee that their shipments will contain no bone chips.

ASEAN, except for the Philippines, doesn't have a standard on Adventitious Presence (which refers to the unintentional and incidental commingling of trace amounts of one type of seed, grain, or food product with another). By not adapting this standard across the region raises the risks of shipments being rejected, which ends up raising the costs for companies.

FDI into agriculture in ASEAN totaled only $1.3 million between from 1999 to 2006, less than 1 percent of the total FDI into the 10 countries during that period.[14] Some ASEAN countries bar foreign investors from investing in certain agricultural sectors or place limits on the scope and size of their investments. As a result, it may not be economical for a U.S. company to invest in what might otherwise be an attractive project.

HEALTHCARE

Our member companies say that standards harmonization in consumer goods, medical devices, and pharmaceuticals would help make the entry of these products into the ASEAN countries faster. It would also make the region a more enticing target for investment. However, U.S. companies find that for the most part each country imposes its own set of requirements. This makes product registration more costly and delays the entry of products into certain countries. Some countries have opted to delay implementation of some ASEAN harmonization standards. One example of this is the cosmetics standards in Indonesia.

ASEAN agreed to adopt harmonized approval regulations for medical devices by 2010 based on the regulatory model of the Global Harmonization Task Force. This is a highly laudable goal that would simplify the introduction of life-saving and life-enhancing medical devices throughout the region. But progress toward this goal is lagging and is being undermined by some countries adopting in-country variations of these regulations. Our member companies encourage ASEAN to redouble its

[14] Plummer and Chia, 89.

efforts to adopt a consistent medical device regulatory approval regime across the region.

Thank you again to the USITC for this opportunity to testify on this important topic.